Debt, Money, and Happiness

Money Doesn't Create Happiness, but the Lack of Money, or Excessive Debt, can Destroy it
Tips to help you get out of debt and stay out.

David M. Barker, Utah Department of Financial Institutions 801 538-8849,
e-mail dbarker@Utah.gov, website www.dfi.Utah.gov.

FIX THE PROBLEM

1. If you are in debt, you've **spent money more quickly** than you've earned it!
2. In order to get out of debt or stay out, you've got to **save.**
3. You'll need to **reduce expenses** or increase income, or a combination of both. Take care: too often, an increase in income just results in increased spending, so reduce spending first. Some have said: "It doesn't matter how much you earn, but it does matter how much you spend."
4. Analyze your **spending habits**. What caused your debt? Do you need to fix a leaky wallet? Some people need to record on paper everything they spend for a month to **find the leaks**.
5. A dollar a day for soda is $365 a year. The estimated long-term cost of a pack of cigarettes is ~$40.
6. Scrutinize your **needs and wants**. Be willing to forego some of your wants, and postpone others in order to get out of debt. Only borrow for things which increase in value, not toys.
7. Seek to eliminate some of your **expenses**, especially recurring expenses. Many who are buried in debt have the fanciest and most expensive high-tech stuff and many monthly conveniences which at least contribute to their inability to get on a sound financial footing.
8. There is nothing magic about getting out of debt. If an offer sounds too good to be true, it is! Many companies who claim to be able to help you, will worsen your finances if you let them.
9. If you are an impulsive buyer, hide your credit cards or freeze them in a tray of water.

TO GET OUT OF DEBT MORE QUICKLY

10. Pay **more than the required** payment – focusing on your highest rate debt first. Make **extra principal** payments (pay them according to your lenders instructions – so you don't get their computers all goofed up).
11. **Bi-weekly payments** are an excellent means to pay extra principal almost painlessly – **if** your paydays are weekly or bi-weekly, **and if** there are no fees involved, **and if** you deal with a reputable money handler. A person who pays ½ of the required monthly payment bi-weekly makes the equivalent of 13.045[a] payments in an average year, pays the loan off early, and pays significantly less interest. If you pay ½ of your required principal & interest payment bi-weekly you can reduce a 30 year mortgage by more than 7 years, and save many thousands of dollars in interest. If you wish to match the bi-weekly advantage, but still make monthly payments, (some lenders won't accept bi-weekly payments) multiply your required monthly payment by 13.05 and divide by 12. Pay that amount each month.
12. **Highest rate debt first**. If you have several debts, pay as much as you can on you highest rate debt and the minimum required payments on your other debts. As you pay off one debt, add the amount you were paying toward it to your next highest rate debt, and so on. Often times, this technique is much more effective and efficient than refinancing – even at a lower rate.

TO STAY OUT OF DEBT

13. In order to stay out of debt, you'll need a contingency **savings!** Include:
    An **emergency fund** – which you try to never, ever spend (only in case of severe emergencies).
    A "**for sure**" savings – for your large annual or semi-annual expenses (e.g. Christmas, property taxes, insurance, repairs, etc).
    A "**buy stuff**" savings – just to buy things that cost more than your monthly disposable income.
    An overdraft protection **line of credit** to protect you from returned check fees. Don't use it for anything other than to avoid bouncing checks, and pay it off immediately when you do use it.
    An **"empty" credit card** (one that you rarely if ever use – only for emergencies – 0 balance, 0 int).
    Get into the habit of paying off your credit cards each month to avoid interest charges.
14. The greater the rate, the higher the risk. Get a safe return on at least part of your savings.

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[a] 13.045 = 365.25 (days in an average year) ÷ 14 (days in a bi-weekly period) x ½ (assuming ½ payments).

15. **Don't co-sign** on others' loans. They may intend to pay, but you may actually pay. Too often, co-signers end up paying off loans they are unprepared for, and financial hardships follow. Numerous co-signors now have negative credit ratings because a primary borrower paid late. Many lenders do not notify the co-signor before reporting delinquencies or repossessions to the credit bureau.
16. **Nothing is risk-free**. If anyone claims a risk-free use of your money, they are lying, or they just don't understand that there is always risk involved – if only opportunity risk.
17. Remember, when you borrow you are still **spending future earnings**, and eliminating future options. When you borrow, even at low rates you are still paying to use someone else's money.
18. The tax advantage of keeping a mortgage loan: You pay me $10,000 this year, and I'll get my Uncle Sam to let you deduct $2,000 from your taxes next year (if you are in the average tax bracket of 20%)

<u>IF YOU MUST BORROW</u>

19. Before you borrow, **compare!** Find the best deal available to you. Pay close attention to the Annual Percentage Rate (**APR**). The APR is extremely useful as a comparison tool.
20. Always **beat 13%** APR. Usually you can beat it by a lot (if you keep your credit good)!
21. Utah law has **no interest rate ceiling**. "Easy loans" are available at outrageous rates. Avoid 'em!
22. If you aren't in the habit of **paying off your credit cards** each month, get in the habit! When you do pay off your cards each month, you pay no interest (most credit cards). If you're accustomed to the dangerous reasoning: "I still have unused limit", get over it! Use the wise reasoning: "I don't charge things with my credit card unless I have the money available."
23. Watch out for exceptionally "low" or "no interest" offers. Pay close attention to the "fine-print" terms and costs. Beware: **artificially low rates** are often offset by increases in other costs.
24. Beware of advertisers' **<u>B</u>**ear **<u>S</u>**tories:
    a. "Cash out your equity" also means: Get deeper in debt, risk losing your home.
    b. "Put your equity to work" also means: " " " " " " " "
    c. "Pay off high-rate credit cards" can mean: Lose your equity and jeopardize you home because you goofed up and ran up credit card debt.
    d. "Unlock your home equity with our credit card" means: Get deeper in debt & risk losing your home with an incredibly easy way to spend money.
    e. "Refinance and save" usually means: lose equity and pay us more interest.
25. **Pay early** or on time to avoid late fees. Late fees can change a loan with a reasonable rate to one of an outrageous effective rate! Consider yourself late if you aren't early. Bad credit is not only expensive because of late fees, but it is also expensive because of increased cost of future debt.
26. If you've already been financially smashed, hang on until you can bounce back, or get help.
27. Before applying for a loan (especially a mortgage loan), **compare, compare, compare**! Fees, rates, prepayment penalties, and terms. One hour of phone calls may save you thousands of dollars.
28. When **signing** documents, understand what and why you are signing. Don't sign it if you don't agree to it. Take your time. If someone tries to rush you through signing documents tell that person to slow down or "take a hike." Plan on taking at least an hour to wade through a mortgage loan closing.
29. If consolidating, **expect delays**, and keep all other obligations current. It is much easier to get a refund of an overpayment than to suffer from increased charges resulting from delinquency.
    Refinancing a mortgage loan can be great:
    a. If the interest rate of the new loan is significantly less than the old one.
    b. If the total of payments of the new loan is significantly lower than the old one.
    Refinancing a mortgage loan can be a disaster:
    a. If your equity gets eaten up by fees.
    b. If you run up new debt after consolidating (because your payment is lower).
    c. If you jeopardize your home by adding credit card debt to your home loan.
    (Some lenders love to put your equity into their pockets thru fees, interest, and prepayment penalties).
31. Don't fall for **<u>scams</u>**. Popular scams include: Lotteries you've never entered. Phony cashier's checks to pay you. Tricks to get your account numbers or SS# and using your identity. Investment scams, especially pernicious when they involve you mortgaging your home to invest. Letting someone else use your good credit rating to buy homes, etc. Don't sign false statements!.

<u>IMPORTANT CONTACTS</u>: Free credit report each year: 877-322-8228 or AnnualCreditReport.com. Opt out of pre-screened solicitations: 800-567-8688. Identity theft hotline (FTC) 877-438-4338.